ASSEMBLY BUDGET COMMITTEE

STATEMENT TO

ASSEMBLY, No. 4602

STATE OF NEW JERSEY

DATED: JUNE 23, 2015

The Assembly Budget Committee reports favorably Assembly Bill No. 4602.

This bill raises the gross income tax rate on taxable income exceeding $1,000,000 to 10.75 percent for a temporary four-year-period and restores the State earned income tax credit to 25 percent of the federal credit. The purpose of this bill is to raise revenue from high-income generating activities while maintaining supplemental income assistance for the working poor.

The bill raises the gross income tax rate on annual income exceeding $1,000,000 to 10.75% for taxable years 2015, 2016, 2017, and 2018.

The bill also increases the State earned income tax credit from 20 percent to 25 percent of the federal earned income tax credit for taxable years 2015 and thereafter.

FISCAL IMPACT:

The Office of Legislative Services (OLS) estimates that this bill would increase gross income tax revenue deposited in the Property Tax Relief Fund (PTRF) for FY 2016, FY 2017, FY 2018, and FY 2019, followed by an annual loss of revenue deposited into the PTRF beginning in FY 2020. The revenue increases are due to the higher 10.75% marginal tax rate, while the revenue decreases are due to the greater Earned Income Tax Credit. The estimates are described separately below.

Gross Income Tax Rate Increase (Four Year Impact):

Precise figures are not available. The OLS uses New Jersey gross income tax (GIT) statistics for Tax Year 2011 rather than Tax Year 2012 (due to the income shifting behavior occurring in 2012 induced by certain federal tax changes), extrapolates those figures for high income tax payers by assuming annual growth of between 4% and 6%, and allocates those revenues by fiscal years. The fiscal year revenue distributions will differ from the tax year amounts.

There will be no receipts in FY 2015, which will be complete before implementation can begin. In FY 2016 the OLS estimates an approximately 15% bonus due to the retroactive implementation of the bill, in which the tax rates are effective beginning January 1, 2015. FY

2016 will collect 100% of the TY 2015 tax liability plus an estimated 15% of the TY 2016 liability from the first six months of withholding and two quarterly estimated payments in 2016. Accordingly, **the total collection in FY 2016 is estimated between $650 million - $700 million. FY 2017 is estimated to raise between $590 million - $650 million. FY 2018 is estimated to raise between $615 million - $690 million. FY 2019, the final year of receipts, is estimated to raise between $540 million - $615 million (85% of TY 2018).**

The OLS notes that the revenue gain under this bill will be highly volatile and subject to significant annual change. High-income taxpayers are far more dependent on volatile income sources such as capital gains, bonuses, and certain types of business income than other taxpayers. For example, GIT revenue from taxpayers with more than $1.0 million income rose by 25% in TY 2007, the year before the Great Recession, but fell 25% in TY 2008 at the onset of the Great Recession.

Earned Income Tax Credit (Permanent Annual Impact):

The OLS additionally estimates the annual incremental revenue loss of increasing the State Earned Income Tax Credit (EITC) from 20 percent of the federal credit amount to 25 percent at **$61.0 million in FY 2016 (TY 2015), $62.5 million in FY 2017 (TY 2016), $64.0 million in FY 2018 (TY 2017), $65.7 million in FY 2019 (TY 2018), $67.3 million in FY 2020 (TY 2019) and growing annually by about 2.5% thereafter.**

The OLS estimate is based on the New Jersey Division of Taxation's February 2015 publication, *A Report on Tax Expenditures in New Jersey*. According to the division's estimates, the current 20 percent EITC will reduce State GIT revenues by $244.2 million in FY 2016. The bill increases the annual benefit to 25 percent of the federal credit amount, an additional estimated cost of $61.0 million in FY 2016. The State benefit amount is increased annually thereafter reflecting annual indexing in the federal income eligibility limits and credit amounts. Should the participation rate in the State program increase or decrease, the OLS estimate would need to be adjusted accordingly.